

Message Text

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ACTION SS-14

INFO OCT-01 ISO-00 EUR-08 NSC-05 NSCE-00 SP-02 EB-03
TRSE-00 FRB-01 CIAE-00 SSO-00 ONY-00 /034 W
----- 079847 /46
O 211254Z DEC 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 8947

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TAGS: EFIN, UK
SUBJECT: SITUATION REPORT, DECEMBER 21

REF: (A) STATE 267168; (B) LONDON 20492

1. THE LEFT-WING TRIBUNE GROUP IS DIVIDED OVER WHETHER TO FORCE A VOTE TONIGHT AT THE END OF THE COMMONS DEBATE ON HEALEY'S ECONOMIC PACKAGE. SINCE THE CONSERVATIVE SHADOW CABINET HAS DECIDED TO ABSTAIN, THERE IS NO DANGER OF THE GOVERNMENT'S LOSING.

2. AS THE STUDY GROUP OF THE BIS MEETS IN PARIS PRIOR TO MEETINGS OF THE OECD'S WORKING PARTY 3 AND THE GROUP OF 10, THE U.K. PRESS CONTINUES TO SPECULATE ON THE DETAILS OF PLANS TO FUND STERLING BALANCES. THE FINANCIAL TIMES SUGGESTS THAT A STAND-BY FACILITY IS BEING CONSIDERED THAT WOULD AMOUNT TO ONE-THIRD TO ONE-HALF OF THE CURRENT STERLING BALANCES.

3. HAROLD LEVER IN A PARLIAMENTARY EXCHANGE REMARKED ON THE OPEN AND FRIENDLY DISCUSSIONS HE HAD WITH LEADING
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MEMBERS OF THE AMERICAN ADMINISTRATION IN WASHINGTON NOVEMBER 13 AND 17, AND HIS SATISFACTION WITH THE SIZE OF THE \$500 MILLION SWAP FACILITY ANNOUNCED BY THE CHANCELLOR OF THE EXCHEQUER IN HIS MINI-BUDGET. HE REMARKED "I WAS NOT IN THE LEAST DISAPPOINTED. NO REQUESTS OF OURS HAVE BEEN REFUSED AND THE HALLUCINATION

(OF SOME MPS) ABOUT THE UNWILLINGNESS OF THE INTERNATIONAL AUTHORITIES AND OTHER GOVERNMENTS TO TRUST THE CREDIT OF THE GOVERNMENT HAVE NO BASIS IN FACT."

4. THE INDEX OF BASIC WAGE RATES FOR MANUAL WORKERS ROSE VERY SLIGHTLY IN NOVEMBER. THE RISE OVER THE LAST YEAR WAS 12.8 PERCENT. SINCE AUGUST THE INDEX HAS RISEN ONLY 3/4 PERCENT. DURING THIS PERIOD SOME 4 MILLION EMPLOYEES - ABOUT A QUARTER OF ALL EMPLOYEES EXPECTED TO BE COVERED BY MAJOR NATIONAL SETTLEMENTS - HAVE NEGOTIATED PAY SETTLEMENTS WITHIN THE PHASE TWO POLICY WHICH LIMITS INCREASES TO AN AVERAGE OF 4-1/2 PERCENT.

5. FOREIGN EXCHANGE AND FINANCE: STERLING SHOWED A SUBSTANTIAL GAIN AGAINST THE DOLLAR IN MONDAY'S TRADING, CLOSING AT \$1.6815, UP 1.05 CENTS ON THE DAY. THIS GAIN IS PRIMARILY ATTRIBUTED TO THE WEAKNESS OF THE DOLLAR AS SHORT TERM EURODOLLAR RATES DECLINED IN SYMPATHY WITH DECREASING PRIME RATES IN THE U.S. THE TRADE-WEIGHTED DEPRECIATION OF THE POUND SINCE THE WASHINGTON CURRENCY AGREEMENT NARROWED marginally TO 44.7 FROM FRIDAY'S 44.9 CLOSE. THE POUND OPENED TODAY AT \$1.6820.

THE FINANCIAL TIMES REPORTS THAT HISTORICALLY LARGE

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ASSISTANCE, IN OVERNIGHT LOANS AT THE MINIMUM LENDING RATE, WAS OFFERED 10 OR 11 DISCOUNT HOUSES ON MONDAY.

THE ASSISTANCE INCLUDED DISCOUNTING A CONSIDERABLE QUANTITY OF TREASURY BILLS AND A MODEST AMOUNT OF BANK AND LOCAL AUTHORITY PAPER. THE SHORTAGE OF CREDIT AROSE AS THE REPAYMENT REQUIREMENTS OF LAST FRIDAY'S LARGE ADVANCES WERE ADDED TO THE SHORTAGES OCCASIONED BY THE SETTLEMENT OF OFFICIAL GILT SALES.

THE GILT MARKET WAS STRONG ON MONDAY AS LONG-DATED GILT PRICES INCREASED ABOUT 1/4 POINT AND SHORT DATED ABOUT 1/8. PERHAPS 100 MILLION POUNDS OF THE LONG TAP STOCK, THE 15-1/2 PERCENT 1998A, WAS SOLD ON MONDAY MORNING BY THE GOVERNMENT BROKER. ON TUESDAY MORNING THE LONG TAP WAS REPORTED TO BE EXHAUSTED. SOURCES NOTE THAT RECENT MONEY SUPPLY FIGURES INDICATE THE MONETARY AUTHORITIES FINALLY HAVE CONTROL OVER THE MONEY SUPPLY AND CREDIT THIS CONFIDENCE WITH THE GILT MARKET'S STRENGTH.

THE EQUITY MARKET CONTINUED TO ADVANCE ON MONDAY AS THE FINANCIAL TIMES INDEX OF 30 ORDINARY INDUSTRIALS INCREASED 0.5 POINTS TO CLOSE AT 341.0.
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